

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 5043

Petition of Central Vermont Public Service Corporation)
for Consent to new Letter of Credit and Reimbursement)
Agreement with Citizens Bank of Massachusetts regarding)
Millstone Bonds)

Docket No. 4945

Petition of Central Vermont Public Service Corporation)
for Consent to new Letter of Credit and Reimbursement)
Agreement with Citizens Bank of Massachusetts regarding)
Seabrook Pollution Bonds)

Docket No. 4817

Petition of Central Vermont Public Service Corporation)
Credit and Reimbursement Agreement with Citizens Bank)
of Massachusetts regarding East Barnet Bonds)

Order Entered: 2/13/2002

I. INTRODUCTION

On December 6, 2001, Central Vermont Public Service Corporation ("CVPS " or the "Company") filed a petition pursuant to 30 V.S.A. § 108(a) with the Vermont Public Service Board ("Board"), seeking approval to enter into Reimbursement Agreements with Citizens Bank of Massachusetts ("Citizens Bank") to provide three letters of credit to secure the Company's indebtedness under each of the Millstone (Docket No. 5043), Seabrook (Docket No. 4945), and East Barnet (Docket No. 4817) Bonds. On January 23, 2002, CVPS amended its filing to extend the proposed termination date by three months, to August 31, 2003, to notice a revised fee structure, and provide information on the addition of a restrictive covenant. The Citizens Bank letters of credit will replace existing letters of credit issued by the Toronto-Dominion Bank ("Toronto-Dominion") and will eliminate the present need to secure the Toronto-Dominion letters of credit through a 100% participation by Fleet National Bank ("Fleet"), each as previously approved in the above-referenced dockets. In support of this petition, CVPS submitted the prefiled testimony and exhibits of Alf R. Strom-Olsen, Director-Treasury Services for the Company.

On December 19, 2001, CVPS received a determination from the Vermont Department of Public Service ("DPS" or the "Department"), pursuant to 30 V.S.A. § 202(f) that the proposed issuance of the letters of credit pursuant to the Reimbursement Agreements with Citizens Bank is consistent with the Vermont Twenty-Year Electric Plan. In the DPS Determination, the Department waived its rights under 3 V.S.A. § 811 and its opportunity for hearing under 30 V.S.A. § 108(a), provided the Board adopts the recommendations and conditions contained in the DPS Determination (the "DPS Waiver").

By letter dated January 18, 2002, CVPS waived its rights under 3 V.S.A. § 811 and its opportunity for hearing under 30 V.S.A. § 108(a) and agreed to the Board adopting the recommendations and conditions contained in the DPS Determination (the "CVPS Waiver and Agreement"). Attached to the January 18, 2002, letter were CVPS's written responses to questions submitted by the Board on January 16, 2002, requesting additional clarifications. The Board's January 16, 2002, memo required that any objections to including the answers in the evidentiary record be filed within three business days of the date of CVPS's response. Receiving no objection from the Department, the Company's answers are included in the record.

By letter dated January 23, 2002, CVPS advised the Board and the DPS of certain changes in the proposed fee structure, extension of initial termination dates and the addition of an "Earnings Before Interest, Taxes, Depreciation and Amortization"/Interest Coverage ratio covenant to the initial letters of credit to be issued by Citizens Bank.

Based upon the agreements and statements contained in the petition (as amended), the DPS Determination, the DPS Waiver, the CVPS Waiver and Agreement, and the supporting testimony and exhibits presented in this Docket, I hereby report the following findings and conclusions to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS OF FACT

1. CVPS is a company as defined by 30 V.S.A. § 201, and is subject to the jurisdiction of the Board pursuant to 30 V.S.A. § 203. Petition at 1.

2. The Company is requesting Board approval to enter into Reimbursement Agreements with Citizens Bank to provide three letters of credit to secure the Company's indebtedness under each of the Millstone, Seabrook, and East Barnet Bonds. These

letters of credit will replace the currently-existing letters of credit issued by Toronto-Dominion and will also eliminate the present need to secure the Toronto-Dominion letters of credit through a 100% participation by Fleet. Petition at 2, 3; Strom-Olsen pf. at 2, 3.

3. Docket No. 5043 concerns the Millstone Bonds. The Millstone Bonds are presently secured by a letter of credit issued by Toronto-Dominion in the amount of \$5,133,562 (including \$133,562 of interest). CVPS's obligation to reimburse Toronto-Dominion in the event of a draw on the letter of credit is contained in the Amended and Restated Reimbursement Agreement with Toronto-Dominion, dated September 24, 1992, and amended by eight subsequent amendments, each of which has been reviewed in Docket No. 5043. The Company seeks to replace this letter of credit with a new letter of credit for the same amount from Citizens Bank, pursuant to a new Reimbursement Agreement with Citizens Bank. Petition at 2; Strom-Olsen pf. at 4, 5.

4. Docket No. 4945 concerns the Seabrook Bonds.¹ The Seabrook Bonds are presently secured by a letter of credit issued by Toronto-Dominion in the amount of \$5,788,750 (including \$288,750 of interest). CVPS's obligation to reimburse Toronto-Dominion in the event of a draw on the letter of credit is contained in the Letter of Credit and Reimbursement Agreement with Toronto-Dominion, dated November 1, 1994, and amended by six subsequent amendments, each of which has been reviewed in Docket No. 4945. The Company seeks to replace this letter of credit with a new letter of credit for the same amount, pursuant to a new Reimbursement Agreement with Citizens Bank. Petition at 2; Strom-Olsen pf. at 5, 6.

5. Docket No. 4817 concerns the East Barnet Bonds. The East Barnet Bonds are presently secured by a letter of credit issued by Toronto-Dominion in the amount of \$6,015,275.35 (including \$215,275.35 of interest), to Central Vermont Public Service Corporation-East Barnet Hydroelectric, Inc. ("CV-EBH"), a wholly-owned subsidiary of the Company. CV-EBH's obligation to reimburse Toronto-Dominion in the event of a draw on the letter of credit is contained in the Reimbursement Agreement with Toronto-

1. CVPS no longer has an interest in Seabrook. However, the 5.5% cost of these obligations compares favorably to rates CVPS would be able to obtain on other similar debt. CVPS is investigating eliminating the need for a letter of credit as security, but no such event could occur until 2004 under the terms of the indenture.

Dominion, dated April 29, 1993, and amended by seven subsequent amendments, each of which has been reviewed in Docket No. 4817. CV-EBH's obligations to Toronto-Dominion are guaranteed by CVPS pursuant to the Guaranty, dated April 23, 1993, made by CVPS in favor of the Bank. The Company seeks to replace this letter of credit with a new letter of credit for the same amount, pursuant to a new Reimbursement Agreement with Citizens Bank. The Company will guarantee CV-EBH's obligations to Citizens Bank in the same manner as it guarantees the current obligation to Toronto-Dominion. Petition at 2, 3; Strom-Olsen pf. at 6.

6. The current Toronto-Dominion letters of credit are guaranteed by Fleet through a 100% participation. No such participation is necessary under the Citizens Bank proposal. Petition at 3; Strom-Olsen pf. at 6, 7.

7. Standard & Poors assigns both Citizens Bank and Toronto-Dominion a corporate credit rating of AA-. CVPS's Response to Board questions dated January 23, 2002. Letter from Kenneth Picton to Susan M. Hudson, Clerk of the Board, dated January 23, 2002.

8. The Citizens Bank proposal is less costly to the Company than the current Toronto-Dominion/Fleet structure. Toronto-Dominion's fee for each letter of credit was \$25,000 (\$75,000 cumulative) plus 12.5 basis points of the respective letter of credit face amount for the one-year extension from June 1, 2001, through May 31, 2002. Fleet charged 200 basis points of the respective letter of credit face amount (now reduced to 135 basis points, effective October 31, 2001). The annual cost for that extension was \$361,528. Petition at 3; Strom-Olsen pf. at 7, 8.

9. Citizens Bank has offered an initial term of up to 21 months from closing to August 31, 2003, with an option to renew for an additional 12 months through August 31, 2004. For the initial term, Citizens is charging a one-time fee of \$15,000 for all three facilities (not each) plus an annual fee of 112 basis points. If the facilities are renewed, Citizens would receive an additional \$10,000 at closing of the renewals. In comparison to the Toronto-Dominion/Fleet Bank structure, the first year of these facilities, assuming CVPS' rating stays at its current level and including additional, incremental legal fees, should cost \$214,763, an estimated savings of approximately \$146,827 annually. Petition at 3, 4; Strom-Olsen pf. at 7, 8; Letter from Kenneth Picton to Susan M. Hudson, Clerk of

the Board, dated January 23, 2002.

10. To continue the first mortgage priority of these new letter of credit reimbursement agreements, the existing First Mortgage Bonds, Series PP, QQ and RR, issued July 30, 1999, presently securing the existing Toronto-Dominion letters of credit and Fleet's participation, will be transferred to Citizens Bank. No new First Mortgage Bonds will need to be issued. Petition at 4; Strom-Olsen pf. at 8.

11. The terms of the proposed letters of credit from Citizens Bank will include a negative pledge covenant (no liens other than permitted liens), and a total debt-to-capitalization ratio, adjusted for cash balances, of no greater than 50%, and an Earnings Before Interest, Taxes and Depreciation/Interest Coverage ratio test of 3.0. The Company's total debt-to-capitalization ratio, adjusted for cash balances, at September 30, 2001, was 34%. In addition, the Company will pay the usual closing and documentation expenses. As Citizens Bank will be drafting new agreements, CVPS anticipates legal expenses will be somewhat higher than expenses relating to recent renewals. Mr. Strom-Olsen estimates the incremental fees to be \$10,000 more than the prior Toronto-Dominion renewals. Exhibit ARS-2; Petition at 4; Strom-Olsen pf. at 8, 9; Letter from Kenneth Picton to Susan M. Hudson, Clerk of the Board, dated January 23, 2002.

12. The Company anticipates no adverse changes from current conditions in the terms and conditions of each new document or the overall transaction, as outlined on Exhibits ARS-1 and modified as described in the January 23, 2002, letter. CVPS will promptly inform the Board and Department of any material changes in any terms of the transaction, and will file a set of the principal documents after the closing. Petition at 4, 5; Strom-Olsen pf. at 9.

13. Extending the security provided by the letters of credit, maintaining the current rating of the underlying bonds, and avoiding the requirement to offer to repurchase the outstanding bonds contribute to CVPS's financial stability. Petition at 5; Strom-Olsen pf. at 9, 10; DPS Determination.

14. CVPS's Board of Directors and CV-EHB's Board of Directors have approved these transactions. Petition at 5; Strom-Olsen pf. at 10; Exhibit ARS-2; CVPS Waiver and Agreement.

15. The Department has determined that the proposed financing transactions are

consistent with the Vermont Twenty-Year Electric Plan, provided that any distribution or transmission activities financed by the proceeds from the proposed financing will meet the requirements of the Vermont Twenty-Year Electric Plan. The DPS Determination does not imply approval by the DPS of the capital structure resulting from any financing, or use of funds for purposes other than those specifically described in the Petition. DPS Determination.

16. CVPS has agreed to the recommendations and conditions in the DPS Determination. CVPS Waiver and Agreement.

17. Approval of CVPS' requests to replace its three Letter of Credit and Reimbursement Agreements with the Toronto-Dominion Bank with new letters of credit and Reimbursement Agreements with Citizens Bank of Massachusetts will be consistent with the general good of the State of Vermont as required by 30 V.S.A. §108(a). Findings 1-16, above.

III. CONCLUSION

On the basis of the evidence of record, I recommend that the terms and conditions proposed by CVPS to enter into Reimbursement Agreements with Citizens Bank to provide three letters of credit, with terms expiring on August 31, 2003, to secure the Company's indebtedness under each of the Millstone (Docket No. 5043), Seabrook (Docket No. 4945), and East Barnet (Docket No. 4817) Bonds, replace the currently-existing letters of credit issued by Toronto-Dominion and eliminate the present need to secure the Toronto-Dominion letters of credit through a 100% participation by Fleet, all as described in the petition, prefiled testimony and exhibits, should be approved by the Board as consistent with the general good of the State of Vermont. I also recommend that this matter be decided without hearing.

All parties to this proceeding have waived the opportunity to comment on this Proposal for Decision in accordance with 3 V.S.A. § 811.

DATED at Montpelier, Vermont this 13th day of February, 2002.

s/Hope G. Crifo
Hope G. Crifo
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The Findings and Conclusion of the Hearing Officer are adopted.
2. Pursuant to 30 V.S.A. § 108, the terms and conditions proposed by Central Vermont Public Service Corporation to enter into Reimbursement Agreements with Citizens Bank of Massachusetts to provide three letters of credit, with terms expiring on August 31, 2003, to secure the Company's indebtedness under each of the Millstone (Docket No. 5043), Seabrook (Docket No. 4945), and East Barnet (Docket No. 4817) Bonds, replace the currently-existing letters of credit issued by the Toronto-Dominion and eliminate the present need to secure the Toronto-Dominion Bank letters of credit through a 100% participation by Fleet National Bank, all as described in the petition, prefiled testimony and exhibits, are approved.
3. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that Central Vermont Public Service Corporation may implement. Nothing in this approval shall preclude the Department or any other party, or the Board, from reviewing and/or challenging those expenditures and/or the Company's resulting capital structure in any future proceeding.
4. CVPS shall provide the Board and the Department with a complete set of final executed documents when they are available.

DATED at Montpelier, Vermont, this 13th day of February, 2002.

<u>s/Michael H. Dworkin</u>)	
)	PUBLIC SERVICE
<u>s/David C. Coen</u>)	
)	BOARD
<u>s/John D. Burke</u>)	
)	OF VERMONT

OFFICE OF THE CLERK

FILED: February 13, 2002

ATTEST: s/Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board of any apparent errors, in order that any necessary corrections may be made.

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.